



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON 25, D. C.

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COPY 1 OF 3

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REPLY TO:

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HQ Eastern District
Auditor General
Comptroller, USAF
Liaison Office
Washington, D.C.

6 January 1959

25X1

SUBJECT: Report on Property Audit
Contract FL-3011
Westinghouse Electric Corporation
Air Arm Division
Baltimore, Maryland

TO : Contracting Officer

25X1

1. Purpose of Examination:

An examination has been made of the contractor's records to determine the validity of the residual inventory schedules listed on Exhibit A, as submitted by the contractor to the contracting officer. The contractor's accountability for government furnished material under this contract was also examined.

2. Scope of Examination:

a. Residual direct materials - The examination included a determination of total quantity accountability for a selected sample of purchased and/or manufactured parts and components, the cost of which had been included in the various price redetermination and termination proposals under the contract. The selected sample consisted of 23 items which constituted about 49% of the direct material costs of the contract, and approximately 1% of the number of parts required for the contract. It is recognized that the number of parts included in the audit sample represents only a small fraction of the total number of parts required for the contract. However, since the contractor did not maintain direct material accountability records (as reported in "Report on Survey of Government Property Procedures," dated 19 February 1958) the excessive audit time required to establish total accountability for additional items did not appear warranted under the circumstances.

b. Tools and test Equipment - Purchased and manufactured tools and test equipment, the costs of which are included in the various proposals under the contract, were selectively checked for inclusion in the contractor's tool and test equipment inventory.

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c. Government Furnished Property - Records pertaining to the accountability of Government furnished property were examined as deemed necessary under the circumstances.

3. Results of Examination:

a. Residual Direct Materials - In the sample selected for audit the contractor was unable to account for 1.80% of the dollar value of the items charged to the contract. In view of the circumstances surrounding this contract, the auditor considers this shortage to be acceptable, normal attrition.

b. Tools and test equipment - No significant shortages were found as a result of the selective checks made. It should be noted, however, that this equipment is mostly maintained in the contractor's general tool and test equipment areas, rather than being maintained in any one central location. Tools in the estimated amount of \$1,000.00 remain in the hands of suppliers.

c. Government furnished property - Adequate accountability has been established by the contractor in regard to Government furnished property. Other than the inventories indicated on Exhibit A, attached, the contractor is also in possession of inventories dated 30 January 1958 and 24 March 1958, resulting from the termination of two each of Items 12 and 10 respectively, under the contract.

4. Withdrawals from Inventory:

As indicated in the contractor's submission of the inventories, dated 8 December 1958, certain items have been withdrawn at cost from the residual inventory for use on other contracts. The contractor has recommended a downward price adjustment of \$6,450.00 to reflect these withdrawals. This amount, which includes a factor of 17% for G & A and 7% for profit, is acceptable to the auditor.

5. Conclusion:

Based on the selective checks made and subject to the price adjustment referred to in paragraph 4, it is the opinion of the auditor that the inventories submitted by the contractor fairly represent the residual direct materials, tools and test equipment purchased and manufactured under the contract. It was also established that the contractor has satisfactorily accounted for Government property furnished in connection with the contract.

6. Comments on Inventory Values:

a. Residual Inventories - The estimated cost that the contractor has placed on the inventory as shown in Exhibit A represents bare material cost as obtained from purchase orders, where available. No attempt was made to determine the cost of any fabricated

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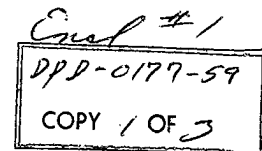
parts included in the inventory, since an accurate determination was not deemed practical under the circumstances. However, based on selective checks made, the auditor considers the amount of \$55,312.00 indicated by the contractor to reasonably approximate the cost of the material included in the inventory. This information is furnished to assist the Contracting Officer in the determination of disposition.

b. Tools and test equipment - The contractor has indicated the total cost of tools and test equipment included in the inventory to be \$129,000.00. The breakdown of the various categories of tools and test equipment shown on Exhibit A is based on estimates, since cost data for individual items is not available. The total amount of costs proposed by the contractor in the various price redeterminations under the contract amounted to \$121,274.00.

7. Comment on Property Items Retained by the Contractor:

It is suggested that the depot be advised of all items retained by the Contractor, other than purchased, in order that they may be brought under record control of the depot.

Liaison Officer
Eastern District
Auditor General

EXHIBIT A

Listing of Residual Inventories of Direct Materials,
Tools and Test Equipment Under Contract FL-3011 as
Submitted by the Contractor 9 December 1958

	<u>Estimated Cost Per the Contractor</u>	
<u>Direct Material:</u>		
1. Residual material, 33 pages	\$ 54,062	
2. Additional items being used by Engineering	<u>1,250</u>	\$ 55,312
<u>Tooling and Test Equipment:</u>		
3. Completed whole tools, 13 pages)		
4. Tools held by suppliers, 2 pages)	\$ 54,000	
5. Modification costs of tools acquired under other contracts, 1 page	1,000	
6. Tools on which design only was accomplished, 1 page	1,000	
7. Test Equipment, 2 pages		
(a) Completed new special test equipment	34,700	
(b) Modification to test equipment acquired under other contracts	34,250	
(c) Test equipment on which design effort only was accomplished	<u>4,050</u>	<u>\$129,000</u>
TOTAL		<u>\$184,312</u>